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sent 9/27/96

Exhibit No.:  
Issue: *Financial Impact*  
Witness: *Stephen M. Rackers*  
Sponsoring Party: *MoPSC Staff*  
Case No.: *EO-97-6 et al*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

UNION ELECTRIC COMPANY

and

MACON ELECTRIC COOPERATIVE

CASE NO. EO-97-6 et al

REBUTTAL TESTIMONY

OF

STEPHEN M. RACKERS

*Jefferson City, Missouri*  
*September 1996*

Exhibit No. 26  
Date 6-3-99 Case No. EO-96-14  
Reporter JURGEN

1 REBUTTAL TESTIMONY

2 OF

3 STEPHEN M. RACKERS

4 UNION ELECTRIC COMPANY  
5 MACON ELECTRIC COOPERATIVE

6  
7 CASE NO. EO-97-6, et al.

8  
9 Q. Please state your name and business address.

10 A. Stephen M. Rackers, 906 Olive Street, Suite 330, St Louis Missouri 63101.

11 Q. By whom are you employed and in what capacity?

12 A. I am employed by the Missouri Public Service Commission (Commission) as  
13 the Assistant Manager of Accounting for the St. Louis Office.

14 Q. Please describe your educational background.

15 A. I graduated from the University of Missouri at Columbia, from which I  
16 received a Bachelor of Science degree in Business Administration, majoring in Accounting.

17 Q. What has been the nature of your duties while in the employ of the  
18 Commission?

19 A. I have supervised and assisted in audits and examinations of the books and  
20 records of public utility companies operating within the state of Missouri. A list of the audits  
21 I have participated in is attached to my rebuttal testimony as Schedule 1.

22 Q. Have you reviewed the Joint Application of Union Electric Company (UE or  
23 Company) and Macon Electric Cooperative (MEC) requesting approval of a Territorial  
24 Agreement (agreement) and the request to transfer certain facilities necessary to support this  
25 agreement?

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Stephen M. Rackers

1 A. Yes, with the assistance of other members of the Commission Staff (Staff).

2 Q. What is the purpose of this rebuttal testimony?

3 A. The purpose of this rebuttal testimony is to address the direct testimony of  
4 Company witness Ronald W. Loesch and MEC witness Wayne Hackman regarding the  
5 financial impacts of the agreement.

6 Q. What benefits have the witnesses for UE and MEC listed in support of the  
7 agreement?

8 A. On pages 6 through 8 of his direct testimony, Mr. Loesch discusses the  
9 benefits of the agreement:

- 10 1. Remove the duplication of facilities,
- 11 2. Increase customer certainty regarding whom to call for service and  
12 service issues,
- 13 3. Improve system planning with more certainty regarding load growth  
14 and facility planning,
- 15 4. Reinforce the reliability of existing facilities,
- 16 5. Provide better customer service by consolidating the service territory,
- 17 6. Eliminate construction costs.

18 Q. Has UE provided the Staff with any quantification of these benefits?

19 A. Yes. UE has quantified \$418,611 as the ongoing savings related to the  
20 consolidation of its service territory. UE has also quantified \$3,760,000 in savings associated  
21 with the elimination of construction costs. This construction will occur in stages over the

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1 next ten years. The ongoing revenue requirement associated with this reduction in capital  
2 expenditures, when all projects are completed, is approximately \$752,000.

3 Based on discussions with Mr. Loesch, a quantification of the other benefits  
4 realized by UE as a result of the agreement are virtually impossible to quantify at this time.

5 Q. What costs have been identified as a result of the agreement?

6 A. On page 3 of Mr. Hackman's direct testimony, he discusses the net exchange  
7 of approximately 2,200 customers as a result of the agreement. This customer exchange  
8 results in the loss of approximately \$2,000,000 in revenues by UE. This amount is partially  
9 offset by current and expected customer increases in the MEC service area being exchanged  
10 for the UE service area. The offsetting revenue related to these new customers is \$387,500.

11 In addition, on page 8 of his direct testimony, Mr. Loesch discusses the fact  
12 that the customers transferred from UE to MEC will realize an immediate 6.5% rate increase.

13 Q. Has UE provided a quantification of the plant facilities that will be exchanged  
14 as part of this agreement?

15 A. No. However, UE estimates that it will transfer approximately three times the  
16 value of plant facilities that it will receive from MEC.

17 Q. Have you attempted to calculate the net benefit or cost associated with this  
18 agreement?

19 A. Yes. Attached to my testimony as Schedule 2 is a calculation of the impact on  
20 revenue requirement associated with this agreement.

21 Q. Please explain Schedule 2.

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1           A.     Schedule 2 shows the net revenue lost by UE, the expected revenue increase  
2 realized from new customers, and the savings associated with the elimination of budgeted  
3 construction and the consolidation of UE's service territory.

4           Q.     What are the results of your calculations?

5           A.     My calculations show an increase in revenue requirement as a result of the  
6 agreement. The actual increase in revenue requirement may be larger or smaller than the  
7 amounts displayed on Schedule 2 because the items are estimates. In addition, the  
8 construction is expected to occur over a ten year period and the revenues from new  
9 customers are expected to be realized over the next five years.

10          Q.     What is the Staff's recommendation regarding the financial impacts of the  
11 agreement?

12          A.     The Staff recommends that the Commission approve the agreement subject  
13 to the following two conditions. First, since the Staff believes that the agreement may  
14 potentially have a negative effect on earnings, the Staff wishes to reserve the right to  
15 reexamine the financial impacts as part of the calculation of annual sharing credits for UE's  
16 current Experimental Alternative Regulatory Plan (Plan) approved by the Commission on July  
17 21, 1995. Adjustments to book earnings, based on more current data, can be proposed at that  
18 time, if necessary. The Staff believes this approach is fair and reasonable since a portion of  
19 the period covered by the Plan may be impacted by the negative effect on earnings resulting  
20 from the agreement. In addition, the exchanged plant facilities, although similar in nature, are  
21 not expected to be approximately equal in value. Therefore, an adjustment related to plant  
22 may be necessary as part of the annual credit calculation under the Plan.

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1                   The Staff's second condition addresses the immediate 6.5% rate increase that  
2 will be experienced by the former UE customers that will be served by MEC as a result of the  
3 agreement. MEC should institute a transition period during which the rates of these  
4 customers will be increased to the higher MEC rates. I believe the transition period should  
5 be five years. This transition will ease the rate impact resulting from the change in a supplier  
6 for these customers.

7                   On the basis of these two conditions and the Staff's belief that the customers  
8 will receive better service and reliability, as discussed in the testimonies of Staff witnesses B.J.  
9 Washburn and James Ketter of the Commission's Policy and Federal department and Energy-  
10 Engineering department, respectively, in the Staff's opinion this agreement is not detrimental  
11 to the public and should be approved by the Commission.

12               Q.     Does this conclude your rebuttal testimony?

13               A.     Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

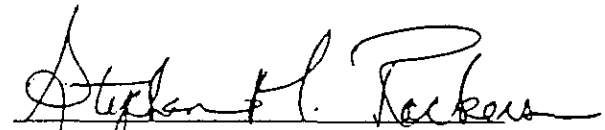
OF THE STATE OF MISSOURI

In the matter of the Application of Union	)	
Electric Company and Macon Electric	)	
Cooperative, Inc. for approval of a written	)	
territorial agreement designating the boundaries	)	Case No. EO-97-6 et al
of each electric service supplier within Macon,	)	
Randolph, Monroe, Shelby, Adair, Linn, Knox	)	
Sullivan, and Chariton Counties in Missouri	)	

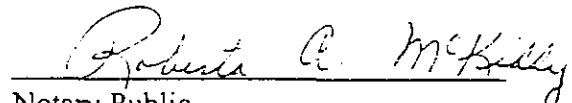
AFFIDAVIT OF STEPHEN M. RACKERS

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Stephen M. Rackers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
 Stephen M. Rackers

Subscribed and sworn to before me this 20<sup>th</sup> day of September 1996.

  
 Notary Public

My Commission Expires: \_\_\_\_\_ ROBERTA A. MCKIDDY  
 Notary Public, State of Missouri  
 County of Cole  
 My Commission Expires 09/11/99

RATE PROCEEDING PARTICIPATION

STEPHEN M. RACKERS

<u>Company</u>	<u>Case Number</u>
Bowling Green Gas Company	GR-78-218
Central Telephone Company	TR-78-258
Empire District Electric Company	ER-79-19
Fidelity Telephone Company	TR-80-269
St. Louis County Water Company	WR-80-314
Union Electric Company	ER-81-180
Laclede Gas Company	GR-81-245
Great River Gas Company	GR-81-353
Union Electric Company	ER-82-52
Laclede Gas Company	GR-82-200
St. Louis County Water Company	WR-82-249
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Arkansas Power and Light Company	ER-85-20
Kansas City Power and Light Company	ER-85-128
Arkansas Power and Light Company	ER-85-265
Union Electric Company	EC-87-114
Union Electric Company	GR-87-62
Southwestern Bell Telephone Company	TC-89-14
St. Louis County Water Company	WR-89-246
Laclede Gas Company	GR-90-120
Missouri Cities Water Company	WR-91-172
St. Louis County Water Company	WR-91-361
Laclede Gas Company	GR-92-165
Missouri Pipeline Company	GR-92-314
St. Louis County Water Company	WR-92-204
St. Louis County Water Company	WR-94-166
St. Louis County Water Company	WR-95-145

## SUMMARY OF REVENUE REQUIREMENT IMPACT

SAVINGS FROM AVOIDED CONSTRUCTION	(\$752,000)
NET REVENUE LOSS	2,000,000
NEW CUSTOMER REVENUE	(387,500)
OPERATION & MAINTENANCE SAVINGS	<u>(418,611)</u>
TOTAL INCREASE IN REVENUE REQUIREMENT	\$411,889